

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6290**

**BILL NUMBER: SB 57**

**NOTE PREPARED:** Dec 29, 2003

**BILL AMENDED:**

**SUBJECT:** Property Tax Deductions.

**FIRST AUTHOR:** Sen. Simpson

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:**

**GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** Local

LOCAL IMPACT	CY 2004	CY 2005	CY 2006
Local Revenues		(9,900,000)	
Local Expenditures			
Net Increase (Decrease)		(9,900,000)	

**Summary of Legislation:** This bill allows a taxpayer to claim certain additional property tax deductions for taxes payable in 2005 if the taxpayer would have been eligible for the deductions for taxes payable in 2003 if current eligibility requirements had been applicable to that year.

**Effective Date:** Upon passage.

**Explanation of State Expenditures:**

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** The elderly deduction is a \$6,000 deduction available to taxpayers who are 65 years old or older with a gross income under \$25,000. For taxes paid through 2003, the home must have been assessed at no more than \$69,000. For taxes paid in years after 2003, the assessment cap is \$144,000. The total amount of this deduction for taxes paid in CY 2002 was \$611.6 M.

The disabled veteran deduction is a \$6,000 deduction available to honorably discharged veterans who are

totally disabled or are at least age 62 with at least a 10% disability. For taxes paid through 2003, the home must have been assessed at no more than \$54,000. For taxes paid in years after 2003, the assessment cap is \$113,000.

The World War I veteran deduction is a \$9,000 deduction. For taxes paid through 2003, the deduction was available to WWI veterans whose home's assessed value did not exceed \$78,000. For taxes paid in years after 2003, the assessment cap is \$163,000. The total amount of all veterans' deductions (also including the partially disabled and WWI survivors' deductions) for taxes paid in CY 2002 was \$407.2 M.

The AV caps were raised because the statewide total gross assessed value of residential property is expected to rise by 108% as a result of the current real property reassessment. The new assessments took effect with taxes paid in 2003, while the increased AV caps for deductions will take effect with taxes paid in CY 2004. Under the old assessment method, an average home with a market value of \$100,000 might have had an assessed value of about \$48,000. The home's new assessed value is \$100,000. Because of the change in valuation method and the one-year lag between the new assessments and the new AV caps for deductions, many taxpayers who qualified for the deduction through taxes paid in CY 2002 may not qualify in CY 2003. They will, however, qualify once again in CY 2004 under current law.

This bill would allow taxpayers to receive a credit against property taxes paid in CY 2005 if the taxpayer would have qualified for any of these three deductions in 2003 if the new AV caps were effective that year. The credit would be equal to the difference between (1) the actual taxes paid in 2003 and (2) the net liability if the deduction had been in place. A taxpayer would be entitled to a refund if their credit exceeds their 2005 property tax liability.

Using income tax records containing data regarding elderly taxpayers and deductions for property tax, it was estimated that about 53% of those taxpayers who qualified in 2002 for the elderly property tax deduction will lose the deduction for 2003. It was then assumed that the percentage of WWI and disabled veterans that will lose their deductions for 2003 was the same as the elderly deduction. The elderly deduction plus the veterans deductions (including all veterans deductions) totaled \$1.01 B AV in CY 2002. If 53% of CY 2002 taxpayers lost their deductions in 2003, then the credit under this bill would be based on lost deductions of \$542.8 M. The estimated statewide net tax rate, applied to the lost deductions, yields a total credit estimated at \$9.9 M, statewide.

This credit would reduce CY 2005 property tax revenues for local units and school corporations.

**State Agencies Affected:**

**Local Agencies Affected:** County auditors; Local civil taxing units and school corporations.

**Information Sources:** Local Government Database; OFMA Income Tax Database, Tax Year 2001.

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